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Governing Financial Stability: the Financial Stability Board as the Emerging Pillar in Global Economic Governance

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1. Introduction

The Financial Stability Board represents the most important institutional innovation in the global economic governance architecture that has emerged from response to the global financial crisis originated in the summer of 2007 from the US subprime mortgage markets. This institution was created by the G20 at the height of the global financial crisis with the task of urgently coordinating the international regulatory response to the crisis. However, rather than being a short-term fix in response to the crisis, the FSB has been given a central role in promoting international financial stability. In the words of the U.S. Treasury Secretary Timothy Geithner, the FSB should have become a 'Fourth Pillar' in global economic governance along with the IMF, the WB and the WTO (US Treasury 2009).

However, this label overlooks the fact that the commonalities between the FSB and the other three pillars are far fewer than the elements that set these institutions apart. The FSB can rely in the pursuit of its mandate neither on the large staff and financial resources of the IMF and World Bank, nor on the legal standing and the power to devise legally enforceable agreements of the WTO. Instead, the FSB's mandate, internal structure, and membership make this a rather unique institution in the global economic governance architecture.

How can we explain the unique nature of the FSB and the differences with other institutions that populate the existing global economic governance architecture? Whose preferences and paradigms are reflected in the evolution of the mandate, internal governance, and membership of the institution? And what kind of power is the FSB capable to exercise over the different players that populate the governance of international financial markets?

These are the questions that will be analyzed in this chapter. The first section will provide a historical overview of the FSB starting from the emerging market crises of the

late 1990s to the first significant revision of its Charter in 2012. The second section will explore the expansion in the tasks performed by the FSB over this period. This analysis will illustrate an evolution in the role of the FSB from being primarily a coordination mechanism to an institution capable to exercise a greater independent impact over the global economic governance. The third part will different measures introduced since the beginning of the crisis to strengthen the institutional bases of the FSB in support of the growing set of tasks. Finally, the fourth part will analyze the membership of the FSB. This section will discuss how the FSB has evolved from a narrow club to a more inclusive organisation, and how it interacts with those non-member countries.

2. From the Financial Stability Forum to the Board: a Short History

While the creation of the FSB represents the primary institutional innovation in the global economic governance to emerge from the global financial crisis of 2008-2010, the roots of this institution can be found in the response to a previous wave of financial instability a decade earlier. The Mexican crisis of 1994 and the East Asian crisis of 1997-98 had the effect of opening an international debate over the possible reforms to the international financial regulatory architecture emerged since the 1970s (Eichengreen 1999).

In response to these shocks, the G7 charged the President of the German Bundesbank Hans Tietmeyer with the task of consulting with other policymakers regarding possible arrangements to strengthen the capacity of existing national and transnational financial regulatory authorities to detect and respond to emerging vulnerabilities. The report presented by Tietmeyer in 1999 highlighted the tension between the global integration of financial markets and the continuous fragmentation along sectoral lines of the patchwork of existing international standard-setting organisations. The Tietmeyer Report also noted that while the existing regulatory institutions were capable to monitor the evolving risks in a specific sector none of the existing institutions had the breadth of information to assess the evolving risks in the entire financial markets, what Tietmeyer called 'macro-prudential' issues (Tietmeyer 1999, 3).

The Tietmeyer Report provided the blueprint for the creation of the Financial Stability Forum, which met for the first time in April 1999. The newly created body was described as a 'club of clubs' (Drezner 2007, 136), bringing together for the first time representatives of the most important standard-setting bodies that had emerged along sectoral lines since the 1970s (Basel Committee, International Organisation of Securities Commissions, Committee on Payment and Settlement Systems, International Association of Insurance Supervisors, International Accounting Standards Board, Committee on the Global Financial System), as well as representatives of more formal international organisations (Bank for International Settlements, IMF, World Bank, and Organisation for Economic Co-operation and Development). Moreover, the design of the FSF also included national representation from central banks, finance ministries, and regulatory and supervisory authorities from the G-7 countries. This composition reflected the desire to bring together all the major national and international authorities in charge of promoting international financial stability, as well as to increase the political support behind their development and implementation of international financial rules by increasing the engagement of finance ministries (Green 2011). However, the institutional design of the FSF also reflected the preferences of the most industrialized countries represented in the G7 for a more incremental kind of reform of the existing architecture over the creation of ambitious new international regulatory institutions with

substantive powers over domestic regulatory policies.

The contribution of the FSF in bolstering financial stability during its first decade has been less significant than envisioned by its creators. One of the key initiatives launched by the FSF in its initial year has been to bring order to the plethora of international standards and codes and to identify 'Twelve Key Standards for Sound Financial Systems' whose implementation should have been prioritized from countries all around the world. This initiative was consistent with the view prevalent among US policymakers of the FSF as a vehicle to 'upgrade' regulatory policies in emerging market countries and to foster convergence around international regulatory 'best practices' (Bluestein 2012, 13).

However, the FSF failed to develop adequate mechanisms to promote the implementation of its international standards. The responsibility to review the implementation at the national level of the 12 Key Standards was undertaken not by the same FSF but rather delegated to the IMF and World Bank as part of the newly established Financial Sector Assessment Program (FSAP) and Reports on the Observance of Standards and Codes (ROSC). Moreover, this process remained voluntary and individual countries maintained the right to veto the publication of the results of this monitoring exercise in full or in part. Over this period many of the emerging countries that were the primary target of the initiative have engaged in what Walter has called 'mock compliance' or suppressed the publication of the results of this oversight (Walter 2008). Most importantly, the same US policymakers which had over this period urged emerging countries to subject themselves to this international review refused until 2008 to undergo the same review of its own regulatory system (Foot and Walter 2010). As Germain argues, over this period the FSF was 'able to move no farther or faster than its most powerful member states' in promoting compliance with internationally-coordinated measures (Germain 2011, 52).

Besides the limitations in the capacity of the FSF to promote compliance with the existing international best practices, the FSF has also played over this period a limited role in directing the international public policy agenda. In particular, other international standard-setting bodies that comprise the FSF have remained reluctant to see their autonomy curtailed by the newly created institution (Donnelly 2012). Most importantly, the FSF has developed only a limited capacity in developing regulatory policies on its own. At its first meeting the FSF set up three working groups in charge of presenting recommendations pertaining the regulation of three areas of concerns, that is, international capital flows, highly leveraged institutions such as hedge funds, and the regulation of off-shore financial centers. However, since then the FSF has refrained from publishing additional issue specific reports on its own, limiting its role to that of reporting on the work of other international standard-setter bodies. This passive role has been attributed to the preferences of the US and other authorities for keeping the body as primarily a forum to promote communication and coordination among its members rather than an action-oriented institution (Davies and Green 2008).

Also the track record of the FSF over this period in fostering awareness among its officials of the emergence of vulnerabilities has been put into question. The semi-annual meetings of FSF have addressed different of the issues that have been recognized as among the major causes of the global financial crisis of 2007-2010, such as the growth of off-balance-sheet vehicles, the growing signs of strain in the US housing market, and the need for rules regarding the cross-border resolution of financial institutions. However, these discussions proved to be largely inconsequential, not leading the authorities comprising the FSF to depart from the dominant paradigm of the period. As one central bank governor participating to the FSF declared, while 'members' discussions about

vulnerabilities have identified a number of different areas of concern over the years' but 'it was not always clear how useful those discussions had proved to be' (Bluestein 2012, 16).

Despite these shortcomings in the conduct of the FSF in the years preceding the crisis, the revelation of significant market failures in the summer of 2007 and the origin of these shortcomings across a variety of sectors have contributed to bringing the FSF back at the center of the international regulatory stage. The FSF met as early as September 2007 to discuss the implications of the market turbulence for regulatory policies and measures could be introduced to strengthen the stability and resilience of the financial system stability (FSF 2007).

During this meeting the FSF established a small senior group of central bankers, regulators and chiefs of international standard-setting bodies called Working Group on Market and Institutional Resilience, which has played a key role in dictating the initial response to the crisis. The Working Group has identified in its Report in April 2008 a wide range of market failures at the roots of the crisis, from the fraudulent practices in the US subprime markets to the weaknesses in the role of rating agencies, suggesting 67 different policy recommendations. Moreover, the FSF has over this period effectively directed the work of other international standard-setting bodies, national regulators, and private market actors, often setting specific deadlines for the implementation of these measures (FSF 2008). The work conducted by the FSF in the early stages of the crisis has also been highly influential in shaping the agenda of the G20, which had replaced the G7 as the main political forum in response to the crisis. The recommendations presented by the G20 Leaders during the first meeting in November 2008 largely followed the road map delineated by the FSF (Helleiner and Pagliari 2009).

The valuable role played by the FSF in delineating an internationally coordinated response to the crisis led the G20 leaders to revamp this body. At the G20 Summit in London in April 2009 G20 leaders agreed that 'the Financial Stability Forum should be expanded, given a broadened mandate to promote financial stability, and re-established with a stronger institutional basis and enhanced capacity as the Financial Stability Board' (G20 2009, 1). Unlike the FSF, the newly created institution was also given a Charter detailing an expanded set of tasks and a more complex internal governance structure.

G20 leaders have also agreed at the Cannes Summit in November 2011 to 'strengthen FSB's capacity, resources and governance' in order to allow the institution to keep pace with the broader range of functions. In particular, the G20 leaders agreed to establish the FSB 'on an enduring organisational footing', with a 'legal personality and greater financial autonomy, while preserving the existing and well-functioning strong links with the BIS' (G20 2011). The proposals identified by the FSB to achieve this goal were included in an amended Charter adopted by in 2012 (FSB 2012f).

This represents a partly paradoxical outcome. As argued above, the FSF had in the years before the crisis achieved only a limited impact over the governance of international financial markets. Despite this track-record, the origin of global financial crisis in the same industrialized countries that dominated the FSF has increased the urgency of negotiating an internationally coordinated response to the crisis and led the G20 countries to revitalize the role of this institution. The next section will discuss more in depth the functions performed by the FSB to achieve this objective.

3. What Role for the Financial Stability Board?

The previous section has discussed how the FSF had played during its first decade only a very limited role, primarily as a result of the constraints posed by the US and other industrialized economies dominating the institution. The shift from the FSF to the FSB has been characterized by a significant expansion in the mandate of the FSB. While in the case of the FSF the contours of its mission had been defined only in vague terms, the FSB Charter has defined in great details the ways in which the institution is expected to fulfill its mandate of promoting financial stability. It is possible to summarize four roles played by the FSB in the governance of international financial markets in support of its mandate: 1) coordinating existing national and international regulatory authorities; 2) generating international regulatory policies; 3) promoting and monitoring the implementation of financial regulatory policies among its members and non-members; 4) identifying emerging vulnerabilities and issues of concerns.

First, the FSB has inherited from the FSF the role of coordinating the activities of the different international standard-setting bodies and national authorities. This had been identified by the Tietmeyer Report as one of key rationales for the creation of the FSF in 1999. The importance of the FSB in coordinating the activities of different international standard-setting institutions and steering them towards areas that they had not covered in the past has clearly been in display during the financial crisis. For instance, the involvement of the FSB has been important in pushing securities regulators coordinating through IOSCO towards addressing more extensively the financial stability implications of their policies. The FSB was also instrumental in highlighting the financial stability implications of the use of 'fair value' accounting in the existing accounting standards, an element neglected by the IASB (Lombardi 2011). The participation to the activities of the FSB of the heads of these international standard-setting bodies have facilitated the transmission of the priorities identified by the FSF into the activities of these institutions (Lombardi 2011).

The FSB Charter has also given this institution a formal role in overseeing the activities of the other standard-setting bodies. Article 2 lists among the duties of the FSB to 'undertake joint strategic reviews of and coordinate the policy development work of the international standard setting bodies to ensure their work is timely, coordinated, focused on priorities and addressing gaps'. During the crisis the FSB has started to publish visual summaries of the progress made by the different standard-setting bodies in meeting the objectives and deadlines set by the G20 (FSB 2012e). At the same time, while the Charter grants the FSB a special position in overseeing the work of other standard-setting bodies, it makes explicit that that this review 'should not undermine the independence of the standard setting process' (Article 6.3). In sum a clear hierarchical relation between the FSB and other standard-setting bodies has not fully emerged from the crisis, which according to Donnelly remains focused more on 'communication, consensus-building, coordination' than about 'handing out instructions' (Donnelly 2012).

Second, the involvement of the FSB in the development of international financial standards has gone beyond coordinating the work of other international standard-setting bodies. On the contrary, the creation of the FSB has led to expansion of its role in directly initiating international regulatory initiatives. In particular, throughout the course of the crisis the FSB has drafted a series of measures pertaining issues not falling directly within the jurisdiction of any single international standard-setting institution. For instance, the FSB has drafted principles and recommendations concerning the oversight and regulation of the shadow banking system, compensation practices, data collection on international financial network connections, consumer finance protection in the area of consumer credit, and many others. Moreover, the FSB has taken a leadership role in

tackling the problem of banks that 'too big to fail', identifying those financial institutions that qualify as systemically important financial institutions and coordinating the development of international measures to strengthen the regulatory oversight of these institutions. These standards and recommendations have often been developed together with other international economic institutions, such as the IMF, World Bank, OECD, and the BIS, as well as with private market-participants that have been involved in the standard-setting work of the FSB through consultations and private-sector task forces.

While at the beginning of the crisis the FSF/B has primarily operated as a convening forum coordinating the work of other international standard-setting bodies, during the crisis the number of standards and recommendations developed directly by the FSB has come to exceed that of other standard-setting bodies. The growing importance of the FSB as a standard-setter has also been formalized in the FSB Charter. In particular, the Article 2.3 introduced in the FSB Charter in 2012 highlights this role by affirming that the FSB should 'develop or coordinate development of standards and principles in areas which do not fall within the functional domain of another international standard setting body, or on issues that have cross-sectoral implications' (Article 2.3).

Third, the FSB has expanded its influence also over the domestic implementation of these international standards. As argued above, this was one of the main weaknesses of the FSF in the years before the crisis. The creation of the FSB has led to a formalization of the commitment of the FSB members towards implementing the international financial standards and disclosing their level of adherence (FSB 2010). The FSB Charter lists implementing financial standards and undergoing an assessment under the IMF-World Bank Financial Sector Assessment Program (FSAP) among the conditions for membership. By January 2010 all FSB member jurisdictions had participated or were in the process of participating in a FSAP, including those that had refused to undergo such review before the crisis (FSB 2010). FSB members have also committed to disclose their degree of adherence of international financial standards by publishing the assessments prepared by the IMF and World Bank as a basis for the Reports on the Observance of Standards and Codes (ROSCs).

The creation of the FSB has also led to the introduction of a new mechanism to monitor the adherence of its members to international standards: peer reviews. Unlike the top-down review by the IMF and World Bank, peer reviews are based on a continuous back and forth between the country being reviewed and a restricted group of experts from the countries and international institutions that comprise the FSB in an attempt to generate social pressures and mutual learning (Lombardi 2011). During the first few years of its existence, the FSB has conducted a number of 'thematic' peer reviews to assess the implementation of different internationally agreed standards across its membership, starting from the implementation of the 'FSB Principles for Sound Compensation Practices'. The FSB has also introduced a mechanism for individual countries to address specific compensation-related complaints by firms that document a competitive disadvantage as a result of the inconsistent implementation of the Principles and Standards by firms headquartered in other jurisdictions (FSB 2012d). Besides these thematic peer reviews, the FSB has also conducted a number of country peer reviews, monitoring the compliance of specific members with a wide range of international commitment. Mexico was the first country peer reviewed by the FSB in September 2010, followed by Italy, Spain, Australia, Canada, and Switzerland during the following year.

The FSB has also regulatory updated the G20 regarding the state of the implementation of its commitments among its members. In particular, the FSB has identified in October 2011 those areas perceived as most critical for global financial stability, and made these subject to more intensive monitoring and reporting of implementation progress on a

country-by-country basis, reporting on implementation progress in each of these areas at least once a year (FSB 2011a).

It is important to notice how the involvement of the FSB towards monitoring and promoting compliance with its international standards has also extended to countries that are not FSB members. At the time of the creation of this FSB at the London Summit, the G20 Leaders called for the creation of 'a toolbox of measures to promote adherence to prudential standards and cooperation with non-cooperative jurisdictions' (G20 2009, 5). In response to this request the FSB announced a 'balance of positive and negative measures' directed towards non-member countries (FSB 2010, 4). Among the positive incentives, the FSB announced its intention to engage in dialogue with those jurisdictions where there is weak evidence of adherence to the standards and to develop capacity-building mechanisms. In the case these incentives had failed, the FSB envisioned as part of its tool kit the option of publishing the names of 'non-cooperative jurisdictions' which had failed to cooperate with the evaluation process and had demonstrated weak compliance with the main standards. However, the initial review of 61 jurisdictions however has singled out only two jurisdictions (Venezuela and the former regime in Libya) as in danger of sanctions as a result primarily to their refusal to engage with the FSB (FSB 2011b).

Fourth, the FSB has also been granted an explicit role in monitoring vulnerabilities in the financial system, as well as to advise on the implications that these market developments may have for regulatory policies. Following a request from the G20, the FSB has developed together with the IMF 'Early Warning Exercises' to proactively identify potential systemic financial vulnerabilities and incipient risks. A division of labour has emerged between these two institutions, with the FSB leading the work on vulnerabilities and regulatory challenges in the financial sector and the IMF leading on the analysis of macroeconomic and macro-financial vulnerabilities (IMF 2010).

More generally, the FSB has been instrumental to drawing attention to the risks posed by recent trends and innovations, such as in the case of its note on financial stability issues emerging from exchange-traded funds, and therefore contributed to expand the international agenda (FSB 2011c). According to the Charter of the FSB, this review of vulnerability affecting the global financial system should occur 'within a macroprudential perspective' (Article 2.1), in contrast to the focus on the health of individual institutions that has characterized the work of other standard-setting institutions that comprise its membership.

The discussion of these four roles played by the FSB signals a significant expansion in the role envisioned for this institution in the global economic governance architecture compared to its predecessor body, the FSF. Moreover, the architects of the FSB have tried to strengthen the capacity of this institution to effectively address new challenges that may emerge from the evolution of the financial system. In this regard, the FSB Charter as envisioned that the institution would be allowed to 'undertake any other tasks agreed by its Members in the course of its activities and within the framework of this Charter'. However, as the rest of the chapter will discuss more in details, the capacity of the FSB to react to new external challenges remain constrained by its internal governance structure and the preferences of its most powerful members.

4. The Governance of the Financial Stability Board

How well equipped is the FSB to carry forward the expanded mandate described in the previous section? Despite the significant expansion in the mandate assigned to the FSB by the G20 leaders, the institution continues to fall short of other international economic institutions regarding the policy levers at its disposal to perform the tasks assigned.

The FSB has been given a very limited staff of around 20 units. While this represents more than twice the number of people that staffed the FSF in the years before the crisis (Bluestein 2012), the number pales in comparison to organisations such as the IMF and World Bank whose work is supported by a staff of respectively 2400 and 9000 employees (Lombardi 2011). Moreover, the size of the staff is not the element that sets the FSB apart from other international economic institutions. Unlike the WTO, the FSB is not the product of an international treaty. While its Charter lays out a precise set of commitments that the members should follow, this document does not create any legal obligation for its members, as stated explicitly in the FSB Charter (Article 16). As a result, the agreements reached within the FSB do not have the force of international law, and power to impose sanctions for non-compliant countries resides in its member states rather than in the same FSB (Donnelly 2012).

The intention of the architects of the FSB to preserve the member-driven nature that characterized the FSF is clear from the FSB Charter. This has identified the 'sole decision-making body' in the FSB Plenary, that is, the body bringing together all the national representatives that comprise the membership of the FSB, as well as the representatives of the different international standard-setting bodies, IMF, the World Bank, the BIS, and the OECD (Article 9). The Plenary remains in charge of approving the work programme and the budget of the institution, as well as of adopting standards, reports, principles, and recommendations developed by the FSB. However, unlike the Executive Board of the IMF, members of the FSB Plenary have no voting shares, and the Plenary operates on the basis of the consensus rule (Moschella 2012). The consensus rule has been presented by different commentators as one of the factors potentially hindering the capacity of the FSB to perform its mandate, especially since the size of the body now comprises more than 70 members (Griffith-Jones, Helleiner et al. 2010).

While at its core the FSB remains closer to a loose network of regulators, central bankers, finance ministries than to a hierarchical international organisation, the establishment of the FSB has led to a number of institutional innovations in support of its expanded mandate. Four are particularly relevant: the Chair; the Secretariat; the Steering Committee; and the Standing Committees and Working Groups.

First, a central role in steering the organisation is played by the Chair. This figure not only presides the Plenary, the Steering Committee, and the Secretariat, but it is also the external face of the entire organisation. The Chair is appointed by the Plenary among its members for a term of three years that can be renewed only once on the basis of his 'recognized expertise and standing in the international financial policy arena' (Article 21). Mario Draghi, former head of the Italian Central Bank, has been the inaugural chair of the FSB, followed in 2011 by the former head of the Bank of Canada Mark Carney. However, despite the relevance of the position, the chairperson of the FSB maintains a 'dual' role, serving the FSB only on a part-time basis, not being an employee of the FSB, and not earning any remuneration (Lombardi 2011).

Second, in contrast to the FSF, the FSB has been granted a larger permanent Secretariat to support the activities of the FSB and to manage its financial, material and human resources. The Secretariat is directed by a Secretary-General and hosted at the Banks for International Settlements in Basel. The staff of the FSB is primarily on

temporary secondment for quite short periods from the staff of national central banks that comprise the membership of the FSB or from the Bank of International Settlements and it continues to be paid by these organisations or the BIS, rather than being employees of the FSB itself (Griffith-Jones, Helleiner et al. 2010).

Third, while the Plenary is the ultimate decision making body, the primary responsibility for managing the agenda between Plenary meeting is carried by a newly established Steering Committee. This Committee has been created to 'monitor and guide the progress of the FSB's ongoing work', as well as to 'take forward, after consultation and consistent with the directions of the Plenary, any other work necessary for the FSB to fulfill its mandate' (Article 12).

Fourth, the Plenary has been given autonomy to set up a variety of technical committees in support of its mandate. The FSB has initially created three Standing Committees. The first is the Standing Committee on Assessment of Vulnerabilities, tasked to monitor vulnerabilities in the financial system and to issue Early Warnings. The Standing Committee for Supervisory and Regulatory Cooperation has been given the responsibility of addressing coordination issues that could emerge among the different members of the FSB as well as to direct standard-setters towards addressing whether new standards are required. Finally, the Standing Committee for Standards Implementation has given the responsibility to plan peer reviews and report on the progress in implementing the international standards endorsed by the FSB. Besides these Standing Committee, the FSB has also established a number of 'Working Groups' to address support the Standing Committees in performing its mandate, such as the Analytical Group on Vulnerabilities, the Working Group on Experience with Peer Reviews, and the Cross-Border Crisis Management Group, or to address specific issues on the agenda of the FSB, such as the Task Force on Shadow Banking, the OTC Derivatives Working Group, or the Consumer Financial Protection Consultative Group.

Finally, the FSB has established in 2012 a new Standing Committee on Budget and Resources (Article 17) in charge of assessing the resources required for the Secretariat to perform its mission, review the budget, and identify mechanisms to improve the transparency in the matters of financial governance of the FSB. The establishment of this committee reflects the attempt to meet the goal set by the G20 leaders in 2011 to strengthen the FSB's capacity, resources and to establish the institution 'on an enduring organisation footing' (FSB 2012f). One of the tasks assigned to this Standing Committee is to 'identify, evaluate and recommend to the Plenary options for independent raising of resources by the FSB, over the medium term, to supplement the funding received from the BIS' (Article 17.3).

These changes certainly fall short of the transformation of the FSB into a treaty-based international organisation with the status of subject of international law and capable to exercise influence independently of its members. There continues to be little support among the FSB members for this kind of solution, as well as for creating more compulsory mechanisms to enforce compliance on the model of WTO's dispute settlement panels (Lombardi 2011). On the contrary, the FSB members have remained committed to the old model by stating that the organisation should remain a 'member-driven' organisation and its 'decision making on policy issues should continue to be based on consensus'. (FSB 2012f). From this perspective, while the transformation of the FSF into the FSB has been characterized by the development of new policy levers to perform its mandate, it is debatable whether this shift has led to a transfer of power from

the key stakeholders to the organization.

5. The Membership of the FSB

The changes in the mandate and in the internal governance of the institution analysed in the previous sections are not the only transformations that have followed the establishment of the FSB. Another key difference between the FSB and its predecessor body can be found in their respective membership.

At the time of the creation of the in 1999, the FSF was characterized by a geographically narrow membership that was confined to representatives from the same G7 countries that had created the institution. The Tietmeyer Report had suggested that a 'small number' of countries may be added to the original membership over time (Tietmeyer 1999). In the following years, the FSF has expanded its membership to include Australia, Hong Kong, the Netherlands, Singapore, and Switzerland.

According to the primary architect of the FSF Hans Tietmeyer, the limited size of the Forum was necessary in order to 'permit an effective exchange of views and the achievement of action-oriented results within a reasonable time-frame' (Tietmeyer 1999, 5). Similarly, the first Chairman of the FSF Andrew Crockett argued the institution may be more effective if its membership was 'homogenous' (Liberi 2003, 573). However, also preference of the G7 countries for ensuring their control over the international financial agenda has been presented a key reason for the narrow membership (Drezner 2007). As a result, in the first decade of the FSF the involvement of the main emerging markets and developing country representatives in the activities of the institution has been limited to ad-hoc working groups.

The outbreak of the global financial crisis in 2007 has set in motion important pressures to broaden the range of countries involved in the reforms of the global finance. The decision by the Bush Administration in November 2008 to call for a G20 Summit for the first time at the Leaders level in order to coordinate a political response to the crisis has provided the main emerging market governments with a platform to voice their discontent regarding the limited membership of the FSF and other financial regulatory institutions (Bluestein 2012). Their demands for an expansion in the membership of the FSF and other standard-setting bodies were welcomed in the Communiqué released by the G20 leaders, which stated: 'The Financial Stability Forum (FSF) must expand urgently to a broader membership of emerging economies' (G20 2008). When the Charter of the newly created Financial Stability Board was announced in April 2009 this included in its membership not only representatives of the countries already part of the FSF but also representatives of institutions from all the other G20 members.

Similarly to the FSF, the different countries are not equally represented within the Plenary. On the contrary, each country is allocated a number of seats on the basis of its size, the size of its financial markets, and its national financial stability arrangements (Article 11). The G7 countries maintains three representatives in the plenary, including a member from the central bank, a representative from the treasury or finance ministry, and a financial regulatory authorities. The so-called BRIC countries were successful in achieving a similar status. Australia, Mexico, the Netherlands, Spain, South Korea and Switzerland were granted only two representatives, while Argentina, Hong Kong, Indonesia, Saudi Arabia, Singapore, South Africa, and Turkey have instead only one representative. The expansion in the membership has involved not only the FSB but also different of the standard-setting bodies that comprise its membership (Basel Committee,

the Technical Committee of the IOSCO, the Committee on Payment and Settlement Systems and the International Accounting Standards Board) which have over the same period revised their membership to enhance the representation of developing countries. The attempt to rebalance the geographical representativeness of the institution is not limited to the membership of the Plenary but also to the staff that according to Charter of the FSB should ensure 'a balance composition in terms of geographic regions' (Article 22.5). Moreover, while the FSF used to report to the G7 finance ministers and central bankers, the FSB is now formally accountable to the G20, regularly reporting to, and receiving instructions from, this forum.

While these steps have certainly significantly strengthened the representativeness of the FSB compared to its predecessor, the FSB still lacks the legitimacy that derives from the kind of quasi-universal membership of institutions such as the IMF and World Bank. The fact that a vast majority of developing and emerging countries continue to be excluded from the FSB membership is at odds with the renewed focus on promoting compliance with its financial regulatory standards also among non-members. Different proposals have been presented to align more closely the FSB to the quasi universal membership that characterize these institutions, for instance by creating a IMF-style constituency system or making the FSB accountable to a body with universal membership rather than the G20 (Helleiner 2010).

In contrast to these proposals, the FSB has adopted a different approach, strengthening the practice already adopted by the FSF of inviting officials from non-member countries into ad hoc meetings (Bluestein 2012). The FSB Charter has institutionalized this 'outreach' by granting the FSB Chair the authority to extend 'ad-hoc invitations' to representatives of non-FSB Members to attend the Plenary Meetings, as to participate to the activities of the working groups established by the FSB Standing Committees (Article 10.3).

Moreover, in the revision to the Charter introduced in 2012 the FSB has endorsed the creation of 'Regional Consultative Groups' comprising both representatives from FSB members and non-member countries from different regions (Article 20). The six groups initially created bring together officials from the Americas, Asia, the Commonwealth of Independent States, Europe, the Middle East and North Africa, and Sub-Saharan Africa. 65 non-member countries have been included in these regional groups. Each group is co-chaired by a non-member and an FSB member, both from the region, who are chosen respectively by the non-members and by the FSB members in the group. Regional Consultative Groups were designed with the intention of providing a mechanism for FSB members to discuss with non-FSB members the different initiatives underway and to promote implementation of FSB policies, but also for non-FSB members to share their views on vulnerabilities affecting the financial system and possible policy responses. The FSB member chair of the Regional Consultative Groups presents the views of the group to the Plenary and members of the regional groups are invited to propose issues to be discussed by the Plenary.

Moreover, the discussion occurring within the Regional Consultative Groups should feed into the agenda of the FSB via the FSB Review Group, a group comprising FSB members and the co-chairs of the Regional Consulting Groups. This group has identified a set of financial stability issues and recent regulatory reforms, whose potentially adverse impact on emerging markets and developing economies has been analysed more in depth by the FSB in coordination with the IMF and World Bank (FSB 2012a).

While the agenda of the FSB during the crisis has reflected primarily the concerns of those industrialized countries that had dominated also the agenda of the FSF, the creation of regional groups has created a platform for these countries to express their priorities on international financial regulatory reforms. The agenda of the first meeting held by each of the six groups between the end of 2011 and the beginning of 2012 has reflected in different cases concerns that are typical of these regions. For instance, the both the Asian and the Sub-Saharan African Regional Consultative Group have discussed risk of spillover for the region from the sovereign debt crisis in Europe and the policy options for reducing the volatility of capital inflows and the development of domestic capital markets (FSB 2011d; FSB 2012b). The Regional Consultative Group on the Middle East and North Africa has discussed the challenges faced by host-country authorities in the regulation of international financial institutions and the development of domestic capital markets (FSB 2012c) .

In a nutshell, while non-member countries continue to be excluded from the formulation of international standards to which they are expected to comply (Lombardi 2011), these initiatives have opened new channels for developing and emerging countries to formulate and voice their priorities. The extent to which these different channels that have been opened for developing and emerging countries will translate into real change in the agenda of the FSB will play a key role in influencing the legitimacy of the FSB and its aspiration to act as a truly global economic governance institution.

6. Conclusion

The analysis of the FSB presented in this chapter has detailed a growth in the role and effectiveness of the institution from being primarily a weak coordination mechanism among national and international regulatory authorities to an institution capable to exercise a greater independent impact over the global economic governance. The wide set of tasks detailed in the FSB Charter, the numerous institutional arrangements that have been introduced in support of these tasks, and the greater legitimacy that derives from the expanded membership all represent important improvements in the capacity of this body to effectively promote financial stability and close emerging regulatory gaps. On the other hand, this analysis has highlighted numerous elements of continuity with the FSF that may weaken the effectiveness of the FSB in the future. First, similarly to the FSF, the FSB still remain a member-driven organization. This means that capacity of the FSB to achieve regulatory change remains constrained by the preferences of its more powerful members and their capacity to reach a consensus. Despite the success in steering the international regulatory agenda during the crisis, the institution continues to lack significant enforcement capability of its own and its capacity to promote compliance among its members and non-member institutions remain largely untested. Second, while the expansion in the membership of the FSB and the incorporation of the main emerging countries has addressed one of the most important legitimacy issues undermining the FSF in the years before the crisis, it is not clear yet how the FSB will be able to reconcile the expanded membership with the consensus-based decision making process that govern the institution. Third, despite the expansion in the membership, the FSB still remains a 'club' which excludes from its membership the large majority of developing and emerging market countries. The capacity of the FSB to reconcile the limited membership with the objective of promoting stability in global financial markets, and to promote regulatory change in the countries that are excluded from its membership remain another important question mark. As a result, the capacity of the FSB to

effectively function as a “fourth pillar” in the global economic governance architecture and to avoid the fate of the FSF will be severely tested in the years after the crisis.

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